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ABSTRACT

This student guide is intended to assist persons employed as supervisors in learning to reduce costs. Discussed in the first four sections are the following topics: costs (functional, fixed, and variable costs and ways of controlling costs); cost consciousness (getting people involved, passing on information, and getting and giving feedback); and checklists for cost reduction (checklists for the work team; materials; and machines, equipment, and services). Each of these sections contains an introduction, instructional text that is interspersed with reinforcing learning activities, and a section summary. The fifth part of the guide includes a series of performance checks (an end check, a tutor check, and a work-based project). A unit review, which also includes a description of related extension courses and resources, concludes the guide. (MN)

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An Open Tech Project

SUPERVISING

ECONOMIC AND FINANCIAL ASPECTS

72: Cost Reduction

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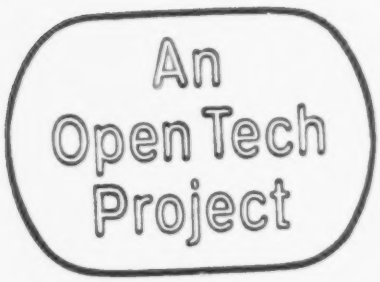
72: COST REDUCTION

Roger Holmes



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Roger Holmes
Cost Reduction (Number 72 in the CHOICE SERIES of learning units)

Series Editor: Harry V Pardue
Northern Regional Management Centre.

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WORKING GUIDE TO THIS UNIT IN YOUR DEVELOPMENT PROGRAMME

This Unit is now your personal property - it's not for handing back to your training officer or to a tutor. It is your working book.

The Contents will increase in value to you each time you write on one of its pages. This is a working text for your personal notes - without notes its value is limited.

Qualifications forget about certificates and diplomas - you don't need them for this programme. What you do need is the wish:-

* to do your job better
* for personal development

Your study time is really up to you - we guess you will need about 8 hours in total. But it's your time - spend as long as you like.

How am I doing? you can judge for yourself by checking out how well you cope with the tasks we call Activities and Self Checks which occur throughout the unit. You can also get the Tutor Check and/or the Work Based Project to your tutor for an unbiased view of your progress.

Work Pace it's really up to you and depends on your interest. However, if you do well on the Activities and Self Checks, you could afford to speed up a little. Of course, if you don't do as well as you expect then you could slow down a little or flick back into the unit for a quick review of the more difficult ideas.

When in doubt - ask or seek help from:

* your family and friends
* colleagues at work
* your company training staff
* other open learners
* your tutor, by phone, by a visit to your support centre or by dropping your tutor a line through the post.

Don't worry if what you learn doesn't seem to be of use to you now, remember that times change - it may be useful one day. Anyway, just knowing more improves personal confidence.

So now make a start:-

72: COST REDUCTION by Roger Holmes

ABOUT THIS UNIT

In our own homes and lives we often face the need to reduce our costs to help us balance our budgets. If we are lucky we may even have some money left over to save for a later date! Obviously the organisation you work in is not as simple as a household, but the general point is the same - cost reduction is not only valuable and sensible but, when organisations compete with others, may be necessary for survival. Cost reduction as a strategy operates throughout the organisation. In this unit we'll concentrate on your role in cost reduction as a supervisor. Whatever your job, you and your workteam contribute to the final cost of whatever goods or service you provide. As a supervisor, you can probably identify many opportunities for reducing the costs of labour, materials and equipment used in your workplace.

We can, and do, use a good deal of commonsense in order to avoid waste and find cheaper ways of working. However, on many occasions we need a bit more than commonsense so we will explore a number of ways of reducing cost and discover how we can create cost consciousness in our workteams.

IN THIS UNIT WE WILL

* look at how costs are incurred
* suggest ways of developing cost consciousness
* investigate how costs can be reduced
* see how you, as supervisor, can get involved in cost reduction.

AUDIO TAPE Side 1

Before you continue through the unit, you should listen to side 1 of the audio tape that accompanies the unit. You will find it useful if you refer to the unit objectives shown below whilst you listen to the tape. You may wish to make the objectives clearer to yourself by making a note or two on the page as you listen.

OBJECTIVES

When you have worked through this unit you will be BETTER ABLE to:

* identify the main areas of cost in your workplace
* identify possible cost savings in the workplace
* encourage your workteam to be cost conscious
* make plans for cost reduction and put them into action

PART A COSTS

1 Introduction

Everyone in the organisation should be concerned with costs. Reducing costs, at the same time as producing an output which is acceptable to the customer, can be a question of survival. Organisations in the private sector with very high costs may go out of business. Organisations in the public sector with very high costs are likely to attract a great deal of criticism from the public. As supervisor, you'll need to be concerned with costs incurred by you and your workteam. So, we'll start by seeing what these costs are.

If you look around, I think you'll agree that all the possible cost areas can be grouped under these headings - the four M's:

MEN
MATERIALS
MACHINES
MONEY

Let's identify some of these costs in a bit more detail.

2 Functional Costs

Men - it costs money to employ you and your workteam - your salaries, national insurance contributions, pension scheme etc.

Materials - all raw materials or materials used as part of your service (office stationery for instance) cost money.

ACTIVITY 1
Time guide
2 mins

Jot down two examples of costs for each of our other headings - Machines and Money.

* Machines _____

_____

* Money _____

_____

Clearly these costs vary from one situation to another but the following would be typical costs in some places.

Machines: repairs and maintenance

depreciation (This is the fact that machines decrease in value each year and will cost you more to replace. You're probably only too well aware of this cost when you come to replace your car)

the cost of hiring or leasing machinery

Money: interest on bank loans

interest on debentures

So everything that you see at work, and much that you don't, represents a cost of some kind.

Let's try sorting these costs out into the sort of headings you are likely to see if you look at any financial accounts.

REFERENCE 1 page 62

In "An Introduction to Cost and Management Accounting", M.L. Houlton identifies these cost headings in a manufacturing company:

Direct Materials
Direct Labour
Factory Overheads
Selling and Distribution Overheads
Administration Overheads.

These represent COSTS.

If we are to make a profit, we need the total of these costs to be less than the value of sales.

EXTENSION 1 page 61

Let's quickly check out what each of these means. If you'd like to study how these costs are made up and accounted for, you might find it useful to read another unit in this series - Accounting for Money. We're not concerned with examining them in depth in this unit but it helps, in understanding what you read about costs and in discussing them at work, if you have a clear idea of what these terms mean.

* Direct Materials Costs - This is the cost of the materials which we can identify as making up the product or service which the firm sells.

* Direct Labour Costs - This is the cost of the wages of workteams who are directly involved in production and whose time is spent on some identifiable product or process. This cost is sometimes called the Direct Wages Cost.

* Factory Overheads - These are all the other costs incurred in the factory which are not easily identified with any particular process or product.

These would include:

indirect materials - materials used in the factory but not directly in the manufacturing process. Safety clothing and cleaning materials are examples

insurance - stocks of materials and finished goods, machinery and people all need to be insured against fire, theft, damage or injury

heating and lighting

rates

the wages of people employed in the factory but not directly involved in production.

This list is by no means complete and, having seen these examples, there may well be others which you can think of in your own workplace.

Let's just pause for a moment and look at the last item on that list in a bit more detail.

ACTIVITY 2
Time guide
2 mins

Think of the people who are likely to be employed in a factory. (It doesn't matter if you don't actually work in one.)

Jot down one example of somebody who works in the factory but who is not directly involved in manufacturing the product and whose wages would therefore come under the heading - Factory Overheads.

* _____

Here are a few examples to compare with yours.

* security staff
* maintenance fitters
* factory manager
* production supervisors.

You may be surprised to see production supervisors (perhaps your own job) on that list. Clearly, production supervisors are very closely involved in production but nevertheless their job is first and foremost to supervise other people, not directly to manufacture goods.

SELF CHECK 1 Complete the following statements with a suitable group of words.
Time Guide
1 min

a) Factory overheads include the wages of people who are not _____.

b) Materials which are used to make a particular product are a _____ _____ cost.

c) The wages of workteams whose time is spent entirely on manufacturing a product are a _____ _____ cost.

The answer to this self check is here in the following words, so you'll need to check your answers carefully. a) You may not have used exactly the same words as me but I hope we can agree that factory overheads include the wages of people who are not directly involved in a particular production process. b) Materials used to make a particular product are a direct materials cost. c) The wages of workteams whose time is spent entirely on manufacturing a product are a direct labour (or direct wages) cost.

Now let's complete our examination of cost headings with the last two on our original list.

Selling and Distribution Overheads -	These will include some of the same items as Factory Overheads (heating and lighting for example) but will also include commission to sales staff, delivery costs, advertising and catalogues, maintenance of cars and lorries, sales staff's expenses
Administration Overheads -	These will include accounting and financial costs including the hire of and depreciation of computers, office supplies and stationery, maintenance and depreciation of the building and its contents.

So far we've been looking at how you could allocate costs to functions in a manufacturing company - one which buys in raw materials, processes them and produces something which it sells.

Clearly, many of us don't work in manufacturing companies and the cost headings we've talked about don't apply.

ACTIVITY 3
Time guide
3 mins

Jot down two examples of organisations which sell to the public but

a) don't manufacture the goods they sell

b) don't sell manufactured goods at all.

* _____

* _____

The choice of examples is just about limitless. Here are my examples. They may be different from yours but I hope yours and mine equally well make the point that allocation of costs will be differently worked out from the way they would be in a manufacturing company.

* Shops sell to the public, but don't manufacture the goods they sell.

  Any retail organisation is in the business of buying and selling - TRADING in other words.

* Insurance companies, chartered accountants and surveyors don't sell goods in any form. They do sell a service but it doesn't involve any processing of materials or selling of goods.

ACTIVITY 4
Time guide
3 mins

Here is a list of the types of costs we've looked at so far. Cross out the costs which you would not find in a retailing organisation.

Direct Materials
Direct Labour
Factory Overheads
Selling and Distribution Overheads
Administration Overheads

I would have crossed out direct materials, direct labour and factory overheads. These costs would be replaced by a purchases cost.

An insurance company or firm of chartered accountants or any organisation which doesn't actually sell something would not have selling overheads to worry about in the way that a shop does but would have to account for the services it gives and the fees for those services.

In organisations like this the word TURNOVER may be used in place of sales. In fact, TURNOVER is sometimes also used in many manufacturing and trading organisations as well. Basically it means the money which comes from providing goods or services as part of the company's ordinary activity, once VAT and discounts have been deducted.

Quite how costs are analysed in any workplace will depend on what that business actually does. If you're interested in knowing more, perhaps your Accounts department would be willing to help you.

I hope, though, that we can agree that, wherever we work, costs all come back to the four M's:

Men
Materials
Machines
Money.

3 Fixed and Variable Costs

So far we've been looking at costs by function - where and how in the workplace they arise.

REFERENCE 2 page 62

This can be very helpful to an understanding of how costs are made up and is how Frank Wood breaks down costs in Business Accounting Volume 1.

Another common way of looking at costs, which every organisation uses, is to decide which costs vary with the output and which don't.

Costs which tend to vary with output are called VARIABLE COSTS.

Costs which don't are called FIXED COSTS.

Let's look at an example of each.

VARIABLE COST - Suppose you sell bread and cakes which you put in paper bags or boxes for customers. How much packaging material you need is directly related to your output of bread and cakes and so is a variable cost.

FIXED COST - Suppose that you have a mortgage on the shop where you sell bread and cakes. The monthly repayments of the mortgage will not be affected in any way by how much you sell, so this is a fixed cost. That doesn't necessarily mean that fixed costs don't change. As you probably realise only too well, mortgage repayments can change, but the reasons for the change are not related to output.

ACTIVITY 5
Time guide
2 mins

Look at this list of costs and decide whether each one is a FIXED COST or a VARIABLE COST.

a) Production Wages. FIXED/VARIABLE

b) Components used in making a product to sell. FIXED/VARIABLE

c) Rates. FIXED/VARIABLE

d) Advertising. FIXED/VARIABLE

I hope we can agree that a) is variable. If production increases more people will have to be taken on or extra overtime worked so production wages will vary with output. However, variable costs need not vary exactly with output. If output suddenly dropped it's unlikely that you would immediately lay people off.

b) is also a variable cost. The number of components you use in manufacture will clearly depend upon output.

c) is fixed. The amount of the rates is dependent on the value of the property, not the output.

d) is fixed. The amount to be spent on advertising is decided by management and is not directly affected by output.

You might find it interesting and useful to ask your Finance Department for a summarised version of the accounts so that you can relate the costs described there to the types of costs we've looked at.

Perhaps, as a supervisor, you sometimes go to meetings to discuss the budget for your workarea. In that case you will be familiar with dividing costs into fixed and variable as a means of calculating what your costs are likely to be and of controlling your costs once the budget is established.

EXTENSION 2
page 61

If you'd like to know more about the part identifying costs plays in budgeting you might find it useful to work through another unit in this series - Control via Budgets.

Now that we've tuned in to the idea of costs and to the possibility of breaking down costs into separate headings which may, or may not, vary with the level of activity in the workplace, we're ready to start examining ways in which we can reduce costs.

First though, you may like to try this self check.

SELF CHECK 2 Complete the following statements with a suitable word or group of words.
Time Guide 5 mins

a) Costs can be grouped under four headings: M_____, M_____, M_____ and M_____.

b) Direct wages costs are the cost of the wages of workteams who are _____.

c) Indirect materials are materials which are _____.

d) Costs which vary with output are called _____ costs.

e) Rent, rates, insurance on the property are normally regarded as _____ costs.

The answer to this self check is here in the following words, so you'll need to check your answers carefully. a) The four headings under which costs can be grouped are men, materials, machines and money. b) Direct wages costs are the cost of the wages of the workteams who are wholly involved in producing whatever goods the company supplies. c) Indirect materials are materials which are used in production but not actually in the product being made. Cleaning materials or safety masks would be examples of these. d) Costs which vary with output are called variable costs. e) These three items are normally regarded as fixed costs because they do not vary with output but will be incurred whatever the level of business activity.

4 Controlling Costs

It's sometimes difficult to decide quite which are fixed costs and which are variable. Thinking long term virtually nothing is fixed. We usually regard rates, for example, as a fixed cost - one which we shall have to pay whatever happens to the business and since it is fixed by the local authority of the area in which our business is situated, outside our control. But rates vary between one town and another.

ACTIVITY 6
Time Guide
2 mins

Jot down how we could reduce the amount we pay in rates.

* _____

_____

_____

In a word, we can move! Thus, in the long term, rates aren't really a totally fixed cost. We can make the same argument for other costs which are normally regarded as fixed.

However, for our purposes, there is one important distinction.

_____

ACTIVITY 7
Time Guide
2 mins

Suppose a company is considering moving out of a city centre to a rural site in order to reduce its rent and rates costs. Jot down who would be responsible for making the decision to move or to stay.

* _____

_____

Perhaps you said 'the Managing Director' or 'the Board of Directors' or 'the bosses'. Whatever you called them, the point is that a decision like that, with long term implications, could only be made by senior management.

So, on a day-to-day level, the important distinction we have to make is between the costs we can control and those we cannot.

ACTIVITY 8
Time Guide
2 mins

Here are four costs.

Put a tick beside those which you think could be reduced by your own efforts.

a) The quarterly electricity cost

b) The cost of rent of the firm's premises

c) The rental cost of each telephone line

d) The cost of telephone calls made quarterly

I hope we can agree that the cost of electricity and the cost of telephone calls made could be reduced by our own efforts.

Perhaps you feel, particularly if you work for a large company, that how much electricity you use or how many telephone calls you make doesn't make any real difference.

To some extent you're right.

If you turn off lights when you go out of a room or make your telephone call outside the peak period it will only make a difference of a few pounds a quarter.

But do you supervise a workteam of five, ten, fifteen or more people?

They will follow your example on cost reduction if you give a clear lead. You can also exert quite a bit of pressure on other people who come into your work area if they know you take cost reduction seriously.

Between you, you can have quite an impact on those quarterly bills.

As a general rule we can say that it is variable costs which are most likely to be within your control and which you can most easily reduce by your own efforts.

But what can we do about other costs which are not directly within our control? They won't go away and it's no use just shrugging our shoulders and pretending that they're nothing to do with us.

Let's take an example of your workteam's time. Probably how much they are paid and the pay scale they are on is outside your control. You can't reduce this cost (leaving aside any question of overtime). But you can make sure that value for money is obtained for that cost.

ACTIVITY 9
Time Guide
1 min

Suppose a member of your workteam produces 10 units per day and is paid £30 a day.

What is the direct labour cost per unit? _____

The direct labour cost per unit - the cost of your workteam member's time spread over the units produced - is £3.

But suppose that person only produces 5 units per week. Perhaps they're not fully trained or you're not supervising them sufficiently or a machine breaks down - there could be dozens of reasons.

ACTIVITY 10
Time Guide
1 min

What is the direct labour cost per unit if only 5 are produced?

* _____

The direct labour cost this time is £6.

Although the cost of wages remains the same, the cost per unit goes up if production is allowed to fall.

In real life, of course, all sorts of departments, materials, equipment and overheads contribute to the total cost.

Only by making efficient use of them can we reduce the cost to the workplace of whatever goods we make or service we offer.

ACTIVITY 11
Time Guide
2 mins

Jot down one way in which you can ensure that you get 'value for money' for the cost of your workteam's time.

* _____

_____

Perhaps you said something like 'keep them working' or 'make efficient use of their time' or even 'supervise'. You may have started to think in detail about selecting the right people for the job and training them properly. We'll look at some of these later. All would be equally correct.

You can't do anything directly about the cost of their time but you can make sure that that cost gets value for money and isn't wasted.

Now look at this example.

ACTIVITY 12
Time Guide
3 mins

Suppose your workteam uses computer terminals which are linked to a large computer at Head Office. Frequently they spend long, frustrating periods in front of the screen waiting for responses from the heavily loaded computer. Response time is slow and seems to be getting worse. You may be able to use your workteam's time on other jobs so that their time isn't wasted so much, but the real problem doesn't go away. What can you do?

Jot down one suggestion.

* _____

_____

You might try a number of possibilities.

* Ring Head Office and try to find out what the problem is.

* Talk to your boss about it and get him to take it up.

Either way, a general feeling that response time is getting worse is not likely to make much impression.

Perhaps you also thought:

* Keep a record of the problems and note exactly what is happening

Equipped with some real evidence you can:

* identify the scale of the problem yourself

* convince your boss that you have a problem which you cannot solve on your own.

We'll look at this in detail later in the unit.

So, to sum up, we can say that you can tackle problems of costs on three fronts:

* reduce costs which are within your control

* get value for money for costs which you can't reduce

* keep records of cost problems which you have identified but can't reduce without support.

By tackling cost problems in these ways supervisors can help their organisations to make a profit and/or get value for money from men, machines and materials. As supervisor you are responsible for the proper use of resources under your control. So, you need to be concerned with controlling costs.

SELF CHECK 3 Decide whether the following statements are TRUE or FALSE.

Time Guide
3 mins

a) All costs are within the control of a supervisor who is up to the job.

TRUE/FALSE

b) You can't do anything about costs which are outside your direct control.

TRUE/FALSE

c) If you identify a cost problem but can't directly do anything about it, the only thing you can do is tell your boss.

TRUE/FALSE

d) You need recorded information for your own assessment of a cost problem as well as for other people.

TRUE/FALSE

The answer to this self check is here in the following words, so you'll need to check your answers carefully. a) This statement is false. Not all costs are within your direct control but your cost reduction activities don't just have to be confined to those which are. b) This statement is false too. You can make sure that you and the workplace are getting value for money for the costs which you can't directly control. c) This statement isn't really true either. You can tell your boss certainly but what you say needs to be backed up with evidence, with recorded information, if it is to carry any weight. d) Records also help you to assess a problem - to see whether it is worsening or improving or how frequently it crops up, for instance. A hunch will only take you so far, so this statement is true.

5 Summary

Everything in the workplace represents a cost.

Costs can be grouped under four main headings:

MEN

MATERIALS

MACHINES

MONEY

Costs can be allocated to particular functions.

Costs can be divided into those which relate directly to the main activity of the workplace and those which relate to overheads, the 'support' departments which allow the main activity to take place.

Costs can be identiied as:

VARIABLE - varying with output

FIXED - incurred regardless of output

To reduce costs:

EXAMINE costs which are within your control

GET VALUE FOR MONEY from costs which you cannot directly reduce

KEEP RECORDS of costs which you cannot reduce without support.

PART B WAYS OF REDUCING COSTS

1 Introduction

Having looked at costs in general terms, now let's turn our attention to specific ways in which costs can be reduced.

I can't give you one sure-fire way of reducing costs in your workplace. In some ways it is rather like detective work in that it involves looking critically again and again at what is happening in your work area, noticing any changes in the pattern or where anything is not as it should be and keeping records.

Like detective work too, you'll probably find that one thing leads to another and that cost problems are often caused by a number of factors which each have to be dealt with.

Let's think in a general way about how costs in your workplace might be reduced.

ACTIVITY 13
Time guide
3 mins

Note down one way in which costs have been reduced or might be reduced in your workplace.

eg by changing work methods

* _____

If you work in manufacturing, the product your workteam makes may have been redesigned at some time. Alternatively the range of products we make may have been reduced. New technology (perhaps even with a reduced number of people) may reduce costs. As this is not a complete list, you may have included other ways.

EXTENSION 4
page 61

Another unit in this series looks at one of them - value analysis - in detail. In this unit, though, we'll consider some straightforward practical ways of reducing costs under our headings:

MEN
MATERIALS
MACHINES

(Our other heading, Money, is involved in all of these.)

2 Men

Have a look at this situation which highlights several cost problems in which people are involved.

ACTIVITY 14
Time Guide
8 mins

Anne Protheroe, the Managing Director's personal assistant, is helping out in the general office. She is typing some invoices which would normally be done by a typist who has been off sick for some weeks and a backlog has piled up which must be cleared.

Because Anne also has to keep up with her own work she in working several hours a week overtime for which she is paid.

She is the only one who can be persuaded to do any overtime. The other typists like to disappear at 5 o'clock and don't seem to be interested in the firm's problems.

One of the other typists spends several hours a week collecting and delivering work around the buildings. This used to be done by a junior but she left and hasn't been replaced.

At the switchboard, the telephonist, who is new to the job, is taking down a lengthy telephone message and leaving a number of incoming telephone calls unanswered. She hasn't really been told what to do about passing on messages and, as she doesn't know everybody on the staff yet, it tends to be a bit random whether you get telephone messages.

A photocopier which all departments use is kept in the general office. At the moment, there is a queue of people waiting to use it. A clerk from the Legal Department is complaining bitterly to a friend that she's back for the second time that morning because her supevisor had just handed her a single sheet with a list of documents on it and said 'Get twenty copies of this lot please' which she had taken to mean twenty copies of the single sheet. When she went back to her work area she got a rocket for not bringing twenty copies of the documents on the list.

Jot down five ways in which costs in which people are involved in this example could be reduced. (Remember, we're looking for ways of reducing costs and for ways of getting the best value for money for costs which can't be reduced.)

* _____
* _____
* _____
* _____
* _____

Well, you may have thought of a number of points arising from that activity. Here are my suggestions:

* Anne Protheroe, the Managing Director's personal assistant, is probably more highly paid than the typists. It's unnecessarily expensive to use her time typing invoices especially when she has other work of her own.

* Anne's overtime could almost certainly be reduced. It might be cheaper to take on a temporary typist to clear the backlog of invoices than to use Anne's expensive time.

* Motivating the other typists to show an interest in the firm and become involved in the work might spread the workload better - it might even be done between 9.00 and 5.00.

* In the same way as Anne's expensive time is wasted on typing invoices, so a typist's time is wasted doing a job which a junior should do. Of course, we don't know why the junior has not been replaced. Perhaps that was a deliberate attempt to reduce costs but, as we'll see later, making changes in the workplace often affects other things which happen there and we need to think through carefully the implications of what we're doing.

* The telephonist needs training. Effective use is not being made of her time and important business could be being lost because callers can't get through or don't get their messages passed on.

* A queue of people at the photocopier means a lot of idle time. Perhaps you felt they should organise their own time better so that they could come back when it was less busy.

* The supervisor in the Legal Department didn't give a clear instruction. Explaining clearly what she wanted would only have taken moments. The result of not giving a clear instruction is waste paper, a wasted trip to the general office and a waste of the time spent waiting at the photocopier by everybody else.

* Typists aren't prepared to do any overtime. One typist has been off sick for some time. The junior left. These just may be isolated and unrelated events. On the other hand, sickness, absenteeism and a high turnover of staff represents a very high and often considerable cost to the workplace. If people are busy, happy and involved, sickness, absenteeism and staff turnover tend to fall.

  This is a case where the supervisor would have to be noticing, looking for a pattern and keeping records of absences and the reasons to pin down the problem.

As far as the workteam are concerned, then, we can sum up the points we've made like this:

USE THE RIGHT PERSON FOR THE JOB

TRAIN PEOPLE SO THEY CAN DO THE JOB

PLAN TO AVOID BACKLOGS AND IDLE TIME

GIVE CLEAR INSTRUCTIONS

MOTIVATE YOUR WORKTEAM

In the last activity we noticed the importance of training in cost reduction. But the problem goes back further than that. Appointing someone who is unsuitable for the job can be an expensive mistake.

ACTIVITY 15
Time Guide
3 mins

Jot down two ways in which you can help to avoid the expensive mistake of unsuitable people being appointed.

* _____

* _____

The extent to which you as a supervisor are involved in staff selection will vary from one workplace to another. Perhaps you will interview and appoint your own workteam members. Perhaps you will not even be at the interview.

What you can do, though, is:

* write a job description - a detailed list of what the workteam member is expected to do - or make sure the existing job description is up to date.

* write a person profile - describe the sort of person you need, the skills, interests and qualifications needed and, if you like, the sort of personality you need to fit in with the demands of the job and the rest of the workteam.

If you pass these on to your Personnel Department or your boss you may well find they are glad of the informed background you can provide to the interview and you are less likely to end up with somebody quite unsuitable. It's worth noting that recruitment and selection of people costs money. If labour turnover is high then this is likely to increase recruitment and selection costs. Of course there are a lot of reasons why people may leave an organisation. But recruiting unsuitable people can be one cause of them leaving. If an unsuitable person remains in the job, then they may not be effective in it. As supervisor, you'll be faced with the problem of that person not working effectively.

Now try this self check before we go on to look at ways of reducing costs as far as materials are concerned.

SELF CHECK 4
Time Guide
5 mins

Complete the following statements with a suitable word or group of words.

a) Low grade work should be done by people whose time is _____ _____.

b) Overtime is a _____ cost.

c) To help select the right people for the job you can write a _____ _____ and a _____ _____.

d) You must give _____ _____ if your workteam are to do their jobs correctly.

e) Encouraging your workteam to become interested and involved in their work is called _____.

The answer to this self check is here in the following words, so you'll need to check your answers carefully. a) You might have used something like 'cheap' or 'not expensive' for this. This doesn't mean to say that you don't train people to take on higher level work or that you never ask a relatively senior (and expensive) member of the workteam to do something menial. If there is a lot of work to do it makes sense to use the time of the most highly paid members of the workteam on the most important, skilled or highest cost jobs. b) Overtime is a variable cost - one which you should keep to a minimum. c) A job description and a person profile will help you select the right staff for the job. d) You must give clear instructions if your workteam are to do their jobs correctly. e) Encouraging your workteam to become more interested and involved in their work is called motivation.

3 Materials

Here is another scene from the same company we looked at before. This time, we're interested in how material costs can be reduced.

ACTIVITY 16
Time Guide
5 mins

In the general office a typist has just finished typing a pile of two line letters to thirty different clients. They are all typed on A4 paper (the same size as this page) and it has taken her ages because, since the stationery was ordered, the company has moved premises and the new address has to be inserted on each letter.

Unfortunately there seems to be piles of out-of-date stationery and it's having to be used up for all sorts of purposes.

The typist looks in her drawer for some window envelopes but can't find any. It's a warm afternoon and she really can't be bothered to go over to the stockroom and get some more. She takes a pile of A5 size envelopes out of the drawer. They are a bit large but if she just folds the letter in half instead of giving it three creases . . . and typing the addresses will mean she doesn't get involved in anything else before 5 o'clock.

There is still a queue at the photocopier. This time it's caused by the fact that somebody from Accounts is taking forty copies of several pages. Every department received a memo some time ago saying that orders for more than twenty five copies should be sent to the in-house print unit, where it was cheaper to produce large numbers of multiple copies.

Paper for the copier is stored under the table on which the photocopier stands. Some packs of paper stick out a bit and have obviously been kicked. The wrappers are torn and some of the paper is crumpled and dirty. However, this makes a change because frequently there's no paper there at all.

A bottle of solvent for the photocopier stands on the windowsill in the sun. The lid is off and there's a strong smell of solvent in the area.

Jot down five ways in which the cost of materials could be reduced in this example.

* _____
* _____
* _____
* _____
* _____

Once again, you could have thought of all sorts of things. Here are my suggestions to compare with yours.

* The typist is typing brief letters on large stationery. If she thought about it A5 stationery (half the size of this page) would be more appropriate and less expensive. However, we have also got the problem of . . .

* . . . too much out-of-date stationery being ordered. It's important to order materials in usable quantities - not so little that you incur unnecessary ordering costs, not so much that, as in this case, you have masses left over after it has ceased to be useful.

* The typist is using the wrong envelopes.

  Whatever we are doing, whether it's cutting fabric, planting out rose bushes, catering or putting customers' purchases in bags, it's important to use the right materials for the job. Less than the right materials and we may have to re-work or deal with a complaint. More than the right material, as in this case, and we incur an unnecessary cost for no improvement in the service.

* You may also have wondered whether the typist should have a pile of envelopes in her drawer and whether the supervisor knows about it. It may be the most efficient way of working, but all those little piles of stock tucked away in people's desks represent quite a lot of money which may be unaccounted for.

* The photocopier poses all sorts of cost problems!

  It's used for multiple copies because, presumably, it's convenient and doesn't demand thinking ahead, but the materials and the use of the equipment are more expensive than necessary.

  (We could also say that the memo telling people not to use the copier for multiple copies over twenty five was a waste of the paper it was typed on since few people appear to have taken any notice of it.)

* Better control of supplies for the photocopier would reduce costs.

  Running out of paper slows down productivity and wastes time. Over-stocking of paper leads to damage.

* Poor housekeeping costs money.

  The paper for the copier is damaged because it is not stored tidily and the solvent for the copier is left to evaporate in the sun.

  Time spent tidying up the area and giving someone the responsibility for keeping the photocopier supplied with materials would be a good investment. In other words we need to exercise control over the flow of materials. This means striking a balance between supplying too many or too few. This balance hasn't been reached with our photocopier here, since sometimes there's no paper at all and sometimes there's too much.

Now let's sum up the points we've made about ways of reducing costs of materials.

USE THE RIGHT MATERIALS FOR THE WORK - NO BETTER NO WORSE

ORDER MATERIALS IN USABLE QUANTITIES

CHECK UP ON SUB-STOCKS - ARE THEY NECESSARY?

CONTROL THE FLOW OF MATERIALS

STORE MATERIALS SAFELY AND CAREFULLY

Did you notice in that last activity how it begins to be difficult to separate the various factors in a cost problem? For instance, the photocopier being wrongly used for multiple copies means that other people are standing idle and the machinery in the print unit is under-used. The fact that people don't take any notice of the instruction means that there is a communication problem too.

ACTIVITY 17
Time Guide
2 mins

Jot down one suggestion for a better way of making people think twice before they use the photocopier for multiple copies.

* _____

_____

It's quite possible that you have thought of different things from me but here are some suggestions to think about.

* Send another reminder - if it didn't work the first time it's not very likely to work now either but it may jog people's memories for a bit and it is a low cost exercise to carry out.

* Put a large prominent notice on the photocopier - this may be a more effective reminder than a memo and is also a low cost exercise.

* Put somebody in charge of the photocopier - likely to be quite successful but you would have to balance the cost of doing this against the reduction in copying costs. This would involve working out precisely what the responsibility would be, how many hours a week it would involve and what training would be necessary.

* Search for alternatives - it may be worth searching for alternatives. It may be that we haven't considered less expensive options to the photocopier that are more likely to be used than the printing unit.

We'll see that these sort of considerations become increasingly complex as we go on.

Let's have a look at one more situation where costs could be reduced. This time we're concerned with equipment.

4 Machines

Let's go back to the same company we looked at before.

We know they have trouble with their photocopier in the general office - that it isn't kept supplied with paper and fluid and that it is used on demand for multiple copies which should be ordered from the in-house print unit.

ACTIVITY 18
Time Guide
3 mins

The instructions for using the photocopier disappeared some time ago and it breaks down frequently. Whoever is there has a go at mending it - taking off the front to free paper from the rollers or just giving it a healthy kick when all else fails. If these remedies don't work, the office equipment company from whom it was purchased are contacted and they send someone round. There is a charge for each visit.

Jot down three ways in which the cost of running the photocopier could be reduced.

* _____

* _____

* _____

Here are some of the points I would mention:-

* Train people to use equipment properly.

  Everyone should be shown how to use the photocopier, shown what to do if it goes wrong and there should be clear instructions attached to the machine.

* Treat equipment properly.

  Either everyone should be trained to handle minor failures or they should be told to report failures to somebody who is qualified to deal with it - kicking the machine, however, isn't to be recommended.

* Plan maintenance.

  If the machine were serviced regularly the number of visits because it has finally broken down might be reduced.

* Monitor faults.

  We don't know that any record is kept of why the machine has broken down or what has been done about it. This means that the office equipment engineer has no information to work on and may not immediately find out the real problem. This is particularly true with intermittent failures which only occur occasionally.

  A record of dates, times, reasons for or symptoms of machine failure and the action taken might save several unnecessary visits

I hope we can agree that we have covered the ways in which the divisions of costs can be reduced. Now let's look at one of them in more detail.

ACTIVITY 19
Time Guide
3 mins

There is no planned maintenance of the machine. It simply runs until it breaks down.

Jot down two further costs, not directly related to the equipment which result from operating this way.

* _____

* _____

Here are the costs which I would mention:

* the cost of wasted time of the people whose work is held up because they can't get copies of documents or don't receive photocopied information which they were waiting for.

* the cost of an alternative way of producing copies - perhaps urgent work is taken to an outside copying bureau which would cost more than using the company's machine.

* the cost of not having the use of the photocopier while it is out of action - the company is getting nothing back for the investment in the machine all the time it's out of action.

* the cost of scrap produced before the machine finally breaks down.

You may think this last example is a bit far-fetched. However, it's very common that, if you run a machine until it breaks down, for some time before that point it has been producing an inferior quality product.

Perhaps in this case, it crumpled up a lot of sheets of paper which had to be scrapped. Clearly there is then the cost of the paper to be taken into account.

Perhaps it had produced smeared or greasy copies which did not look good. They might have been just usable.

ACTIVITY 20
Time Guide
1 min

How would you feel if you received a photocopied document from another company - a price list perhaps - which was difficult to read because the printing was blurred and the paper covered in long grey streaks?

* _____

Perhaps you wrote something like 'not impressed'. We've probably all seen photocopies like this. They are usable - just. But we don't form a very favourable impression of the efficiency or attitude of whoever sent them. And, if that impression is reinforced we may take our business elsewhere.

The trouble with a gradual slipping of quality standards, as in this case, is that you tend not to realise that it's happening unless there are controls or you make a point of reporting and putting right machinery as soon as it goes wrong.

Nine times out of ten a faulty machine produces a faulty product.

Now try this self check before we move on.

SELF CHECK 5
Time Guide
5 mins

Complete the following statements with a suitable word or words.

To reduce the cost of running equipment you should:

a) _____ the workteam in its proper use.

b) Use it _____.

c) _____ maintenance.

d) _____ faults.

e) Report faults _____.

The answer to this self check is here in the following words, so you'll need to check your answers carefully. Here is how I would complete those statements. It doesn't matter if you haven't used exactly the same words as me. To reduce the cost of running equipment you should train the workteam in its proper use; use it properly; plan maintenance; monitor faults (so you know exactly what has gone wrong and what has been done about it); report faults as soon as they occur.

Now let's go back to the company we've been looking at before.

We've mentioned several times that they have a photocopier in the general office and an in-house print unit where multiple copies of all documents, advertising material, letters for mass distribution, notices, leaflets and so on are produced.

Let's have a look inside the print unit.

ACTIVITY 21
Time Guide
4 mins

The print unit is based in a large room. Three machines and all the supplies are kept at one end of the room - the rest is virtually empty.

One of the machines is in regular use, one is used only some of the time because so many people seem to be using the general office photocopier and the other isn't used much at all. Although this machine is not particularly old, it is an out-of-date model and various departments have found they can get their printing done better and more cheaply outside by another company.

The print unit employs a supervisor, one full-time technician and an assistant who works part-time four mornings a week.

Jot down three ways in which you think costs in the print unit could be reduced.

* _____

* _____

* _____

---

* It's a large room. Using space costs money. Heating and lighting costs could possibly be reduced by partitioning off the unused area.

  If we take this a little further, we would have to consider what else could be done with the space. Does another department need it more? By expanding into the spare space here could another department reduce its costs or make more effective use of the people, materials and equipment it already has?

Perhaps you feel that, if it were your section, you wouldn't want half of it partitioned off or taken over by another department. That's an understandable reaction - we all have a strong sense of territory but, by reducing the printing section's costs which result from excessive space it occupies, the cost of the printing service to the company as a whole could be reduced.

It's unlikely that the supervisor alone would make this decision but it might well be up to you to start the ball rolling by looking critically at the layout of the work area and deciding whether the most effective use is being made of the space available.

EXTENSION 3
page 61

If you look around your work area and think you could make more effective use of the space available you might find it useful to work through another unit in this series - Method Study.

* Two of the machines are not in regular full-time use. Perhaps they are genuinely not necessary to meet the company's printing needs. Although it wouldn't be the supervisor's decision whether or not they were sold or scrapped, he could help in this decision by providing reliable information about whether and when the machines were used.

* Perhaps the out-of-date machine could be sold. Keeping out-of-date and unwanted equipment means that money may be tied up unnecessarily. Once again, information from the supervisor about machine usage would help in making this decision.

* They should investigate the real costs of bought-in work.

  Bought-in work may or may not be cheaper. We can't tell from this example but, if various departments place small, separate orders for printing with outside firms, it's unlikely that they are getting a good price. What we do know is that the company's costs (the machinery and the print unit) are not being as efficiently or effectively used as they might be.

* It looks as though there is no proper control over people buying-in printing as and when they think they need it. As we've just said, this means that management may not even be aware of the cost problem created. Supplies for in-house printing will be bought-in but not used, equipment will be under-used, printing department staff may not be fully occupied and it's unlikely that the company is negotiating the best price it could for bought-in printing. All of these costs represent unnecessary costs.

* Perhaps you also thought that, since the print unit seems to be under-used, it may well be over-staffed. Costs could be reduced by reducing manning - perhaps by reducing the part-timer's hours or getting rid of part-time work altogether.

  You may be right but we'll see from the following situation that such sweeping and simple ways of reducing costs sometimes produce hidden costs which weren't there before.

Let's suppose that an investigation is carried out and it looks as though another company in the same town can produce our company's printing requirements more cheaply. The print unit is scaled down, surplus machinery sold, manning levels drastically reduced and far fewer supplies bought.

ACTIVITY 22
Time Guide
2 mins

The company now has the bulk of its printing work done by outside printers. Jot down one possible outcome of this decision which could result in <u>increased</u> costs.

* _____

You may have thought of any number of possibilities and we have probably all expressed them in somewhat different ways.

The key words I would use, though, are:

* loss of flexibility
* loss of independence
* loss of control.

Once the company makes the decision to cut down on its own print unit, it has to fit in with the priorities of another business and another company's way of working.

This may be a perfectly satisfactory arrangement but there is always the risk of:

* delay
* not getting exactly what you want
* not being able to cope with unscheduled work
* not being able to control prices, materials etc.

if you are not at the top of somebody else's priority list.

All of these will represent <u>additional</u> costs. So what set out to be a way of reducing costs may turn out to incur extra costs in other directions.

I don't want to give the impression that nothing should be changed in case there is a hidden cost. Far from it. But, as we said at the beginning of this part of the unit, the picture of costs in any organisation is continually changing and decisions about reducing costs are usually a question of weighing up a number of possible outcomes.

This is why major cost saving programmes need the support and knowledge of every concerned department in the workplace.

Co-ordinating the efforts of a number of departments to reduce costs is the job of a Value Analyst and a Value Analysis team is made up of people from each department. If you would like to know about this technique you might find it useful to work through the unit on Value Analysis in this series.

EXTENSION 4
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5 Records

In our detective work, looking for cost reduction possibilities in the situations we've examined, we've relied on

OBSERVATION AND COMMONSENSE

We've also noticed, though, that we need records - information for our own use and for convincing other people.

Nobody likes creating unnecessary paperwork. (Not for themselves at least!)

ACTIVITY 23
Time Guide
2 mins

Jot down three words to describe the features of a useful, usable records system which would enable you to monitor costs in your workplace.

eg simple

* _____
* _____
* _____

Obviously I don't know exactly what you've said but here are what I think are the key features of useful, usable records:

* simple

* clear

* easy to maintain

* up-to-date

* available

Nobody is going to bother if you introduce some kind of record sheet which is difficult to fill in or isn't immediately to hand. If the record sheet is in your office and you want it completed on the shopfloor then it won't get done.

Similarly nobody will use records which are difficult to understand and take a lot of interpreting - least of all busy managers whom you are trying to convince.

And finally, of course, records have to be kept up-to-date to be any use - which brings us back to the importance of ease and simplicity.

Obviously, needs for records are so varied that I can't give you one form which will suit every situtation. However, as a general rule:

ASK FOR THE MINIMUM INFORMATION

ASK FOR THE RIGHT INFORMATION

It's worth spending some time thinking out exactly what you need to know, making sure that you've got the essential minimum to be able to track down the incident recorded.

Here is one example of a simple record for monitoring how long it takes people using computer terminals in a factory to get a response from the computer which is in head office.

CHETTISFORD COMPONENTS

To: Data Processing Head Office
From : Chigwell Plant

ON-LINE REPSONSE TIMES

PERIOD - 3/3 - 21/3/86

DATE	TIME	RESPONSE TIME IN SECONDS			OPERATOR
		ENQUIRY ONLY	1 RECORD UPDATE	MULTI-ITEM UPDATE	
9/3	10.23	2.9	6.9	11.6	DHT
5/3	9.24	2.7	5.0	17.2	DHT
6/3	10.39	2.6	5.6	9.8	DHT
7/3	10.37	2.7	4.9	13.2	RWH
10/3	9.28	2.9	4.3	7.3	RWH
11/3	9.20	8.2	9.3	10.6	RWH
12/3	10.40	2.7	3.7	13.1	TLC
13/3	15.45	2.5	9.1	11.9	TLC
14/3	10.23	2.4	6.5	10.7	TLC
17/3	10.10	2.5	4.0	12.3	HMT
18/3	10.32	2.5	5.8	11.6	HMT
19/3	11.19	6.0	3.7	11.0	HMT
20/3	10.25	4.6	7.0	13.4	SDC
21/3	9.21	4.1	7.3	9.2	SDC
AVERAGE		3.5	5.9	11.6	
MAXIMUM		8.2	9.3	17.2	
95% WITHIN		6.0	9.1	13.4	

I hope we can agree that this form is very straightforward, clear and asks only for information which it is easy to supply - in this case timing with a stopwatch the response time for different types of computer transaction once a day.

Perhaps you can think of a situation in your own workplace where a simple record such as this would be useful.

6 Budgets

In the situation we looked at to identify ways of reducing costs which related to men, materials and machines we relied on our powers of observation and commonsense backed up by the records we keep.

In Part D of this unit you'll find some checklists of questions which may help you look around your own workplace in the way we did in this part of the unit and identify the areas where we might be able to reduce costs.

We have to accept, though, that some people are more observant than others and we will all tend to set our own standards of what is or is not making good use of time, materials and so on. So in order to give them some standard against which to measure performance and a target to aim for, most workplaces have a system of budgets, usually one for each function or department.

It's quite possible that, as a supervisor, you're involved in the budgeting procedure.

* supplying information to your manager for the budget forecast
* perhaps representing your work area on a budget committee
* making sure that your work area operates within the budget.

A budget expresses, in money terms, the plan for performance throughout the workplace in a coming period (usually a year). Preparing a budget means that the organisation is planning ahead rather than muddling along from day to day and operating within the budget once set means that there is some control over what happens in each department. The budget offers a yardstick by which actual performance can be measured against planned performance. If there's a difference between the two we can try and find out why. Whether performance is better or worse than we planned, knowing the reasons will help us control or reduce costs.

We're not going to say much about budgets in this unit because they are extensively dealt with in another unit in this series - Control Via Budgets.

EXTENSION 2 page 61

I hope you can see, though, that, in your efforts to reduce costs, the departmental budget will be a very important yardstick to measure how well you are doing.

The budget, however, is supposed to be a management tool, not a strait-jacket.

ACTIVITY 24
Time Guide
2 mins

You supervise a team of sales staff who spend a lot of time on the road visiting customers. A couple of months into your budget period of a year, the travelling expenses budget looks like being overspent.

What would you do? Tick whichever seems most appropriate:

a) Tell the team to cut down drastically on the amount of travelling they are doing? |__|

b) Discover that costs had gone up in line with inflation and do nothing? |__|

c) Check whether the increased travelling expenses were matched by an increase in the value of sales made before making a decision? |__|

---

a) if you cut down drastically on travelling, which is a necessary part of the job, you may scrape home at the end of the year within your budget, but you will probably have lost a lot of possible sales.

In organisations which have something to sell, the main aim is to make as much profit as possible or to secure as large a share of the market as possible. Staying within a budget may come second to that. It may be that although we're overstepping the budgets, the benefits of a faster growth in market share outweigh the problems of exceeding the budget.

b) inflation is taken into account when the budget is fixed so a general increase in the cost of living shouldn't be any comfort to a supervisor who finds the section's budget overspent. On the other hand, a crisis in a major oil producing country, for instance, can have an unexpected effect on the price of oil which might send your travelling expenses rocketing. However, this problem would be common throughout the organisation and some emergency plans might have to be made.

As a supervisor, the important thing is not to assume that any one thing is responsible for overspending, but to find out what.

c) If the overspending on travelling is matched by increased sales, then it is probably acceptable. With your manager and the accountant, you would have to check this out. Whatever you decided, you would be using the budget as it is supposed to be used -

AS A TOOL, NOT A STRAIT-JACKET

SELF CHECK 6 Decide whether each of the following statements is TRUE or FALSE.

Time Guide
5 mins

a) There's no need to do anything about costs which are outside your immediate control eg scrapping out-of-date machines.

TRUE/FALSE

b) Some people have no responsibility for costs.

TRUE/FALSE

c) Good communications increase the success of cost reduction programmes.

TRUE/FALSE

d) The main function of a budget is to control costs.

TRUE/FALSE

e) The departmental budget should be adhered to in all circumstances.

TRUE/FALSE

f) A budget enables you to compare actual performance with target performance.

TRUE/FALSE

The answer to this self check is here in the following words, so you'll need to check your answers carefully. a) this statement is false. You may not be able to do anything about some costs, such as the rates but, if you think something like a piece of equipment in your work area represents an unnecessary cost then you can contribute to a decision by keeping records on its use. How often is it used? What for? How does it compare with other similar machines? How often does it break down? How much does it cost to put it right? b) this statement is false too. Some people may not have to account for pounds spent but everybody is directly responsible for their time and that represents a major cost wherever they work. c) it's true that good communications increase the success of a cost reduction programme. d) although the budget plays an important part in controlling costs it is not its only function. Equally importantly, the budget is a plan for the coming period expressed in financial terms. e) a budget ought not to be a strait-jacket which restricts all activity in a department. There may be good reasons for departing from the planned level of performance though you would probably have to discuss that with your manager. f) a budget is a management tool and as such you use it to compare actual performance with target or planned performance.

7 Summary

Finding ways of reducing cost depends on:

OBSERVATION AND COMMONSENSE

KEEPING RECORDS

MEASURING PEFORMANCE AGAINST STANDARDS

THE WORKTEAM:
- use the right persons for the job
- train them to do the job
- give clear instructions
- motivate

MATERIALS:
- use the right materials for the job - no better, no worse
- order materials in usable quantities
- check up on sub-stocks
- control the flow of materials
- store materials safely and correctly

MACHINES:
- train the workteam to use them correctly
- plan maintenance
- monitor faults
- keep records

RECORDS: should be -
- simple
- clear
- easy to maintain
- up-to-date
- available

PART C COST CONSCIOUSNESS

1 Introduction

We've seen that reducing and keeping down costs demands continued effort - you have to be permanently on the look out for performance going downhill, materials and equipment being wrongly used, bottlenecks, idle time, untidy and slipshod ways of working and so on.

Clearly you can only do so much yourself.

You need the support of the workteam in looking for and maintaining ways of reducing unnecessary costs and in keeping records of what is actually happening in your work areas.

You remember that we mentioned at the beginning of the unit that one person trying to cut costs on their own by turning off lights when they go out or using the telephone outside peak periods probably doesn't have much effect, but if that person can persuade a dozen others to do the same then the cost savings begin to snowball.

I know of one factory which reduced its quarterly telephone bill by a third when they made a concerted effort to make brief, efficient telephone calls and to make them only outside the peak period.

So what can we do to make the workteam aware of costs and enthusiastic about reducing them?

ACTIVITY 25
Time Guide
2 mins

Jot down two ways in which you think you could make your workteam cost conscious.

* _____

* _____

Typical answers might include:

* getting the workteam involved
* giving them responsibility for cost reduction
* encouraging them to make suggestions
* offering prizes for suggestions
* passing on information about costs
* telling them when cost reductions (or increases) have occurred

You probably found that you could add to that list.

Let's look at some of those suggestions which are the key to cost consciousness in more detail.

GETTING PEOPLE INVOLVED

PASSING ON INFORMATION

FEEDBACK

2 Getting People Involved

We've already seen that cost reduction is often a matter of observation and commonsense - of noticing clues and following them up.

ACTIVITY 26
Time Guide
2 mins

Which workteam do you think is likely to run a more successful cost reduction programme - the workteam in Company A or the workteam in Company B?

Company A

The atmosphere in Company A is fairly open. There's an informative company newsletter, regular briefing sessions and the managers are often seen about showing an interest in what is going on and talking to the workteams in all departments. People work in small teams and are expected and encouraged to contribute to ideas. There are quite lively discussions - occasional blazing rows - and there is a general feeling that there is a lot going on.

Company B

This company seems very efficiently run. Everybody knows exactly what they are supposed to do and gets on with it. Supervision is strict and there is little opportunity for people to use their own initiative. There is a company newsletter but it's mainly about social events and news about people - births, marriages, retirements, moves within the company and so on. Management aren't much in evidence but, as the process is highly controlled, well-supervised and quite predictable, this isn't surprising.

* ---

That activity may have set you wondering. I wasn't asking you to choose which was the better company or the better run company. That depends so much on the sort of business you're talking about, its size and so on.

Company A may be quite a lively and interesting place to work but one would not like to think of a nuclear power station or an operating theatre being run that way, for instance!

I hope we can agree, though, that it would be easier to run a cost reduction programme in Company A because you are more likely to get the interest and support of the workteam in an atmosphere where they are already involved, informed about the workplace and interested.

You could run a cost reduction programme in Company B and, since strict supervision is already normal, pressumably supervisors could monitor costs fairly easily. But you would be on your own. It's unlikely that the workteam would willingly join in the cost reduction effort and contribute ideas and observations of their own.

Ideally, this open atmosphere exists before you try to introduce a cost reduction programme which you hope the workteam are going to support.

It will help if you:

* Make a point of talking to them about the costs

* Ask for their ideas about methods, materials, the layout of the workplace and so on.

* Listen to any suggestions - don't dismiss any of them out of hand

* Encourage them to think about their own training needs

* Encourage them to take responsibility for how they spend their time and use the equipment and materials in the workplace.

In such workplaces quality circles operate.

These are teams of people, drawn from the same work area and usually led by a supervisor, who voluntarily meet to identify problems of cost or quality in the workplace and to work on them together.

Whether or not you run quality circles in your workplace, if you are trying to encourage your workteam to become cost conscious, you might find it useful to work through the unit on quality circles in this series.

EXTENSION 5
page 61

Earlier on we mentioned the idea of prizes as a way of making the workteam cost conscious.

How successful are they?

ACTIVITY 27
Time Guide
3 mins

In one workplace a £50 prize is offered once every two months for the best idea suggested for reducing costs. The scheme is quite successful and about five suggestions are put into action every year.

Jot down one reason why this would be a good method of increasing cost consciousness and one reason why it might not be considered a successful means of reducing costs.

* _____

* _____

Well, I expect you felt that it gets everybody thinking about new ways of reducing costs which is its major advantage.

There are two drawbacks though.

* What happens to the ideas which don't win the prize? Possibly they were worth taking up but if one prize is offered, all other ideas may be abandoned and whoever suggested them may well feel discouraged.

* The prize is for new ideas. But we have seen that cost reduction involves keeping a watchful eye on things which have been happening for a long time. There are probably no prizes for organising your day so that you make telephone calls after 1.00 pm or so that you don't waste time waiting for equipment to become available but the savings can be quite considerable.

Cost consciousness means treating costs in the workplace as though your money was going to be used to pay for them. And, as we all know, successfully finding ways of cutting our own costs means keeping our eye on our spending all the time rather than looking for one good idea to which a prize is attached.

3 Passsing on Information

We've mentioned the importance of communicating with people about cost if we want them to become involved. The trouble is that much of the information used in the workplace to monitor costs is likely to be in the form of financial statements which are not easy to understand and which can easily put people off.

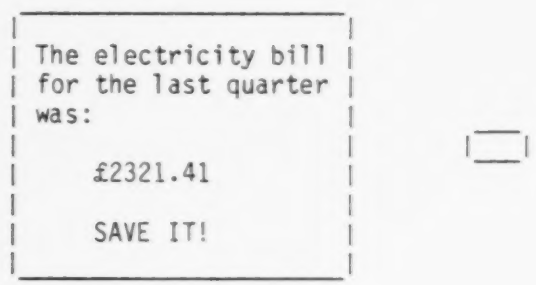
Our problem, as supervisor, is to give people information about costs in terms that mean something to them, when and where they need them.

ACTIVITY 28
Time Guide
3 mins

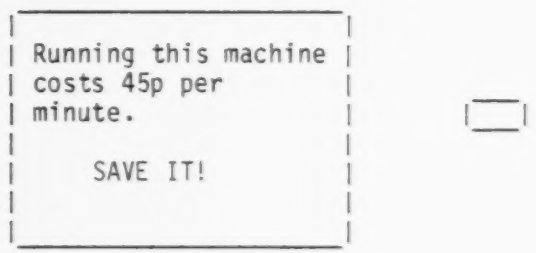
Here are two pieces of information about a quarterly telephone bill.

Tick whichever you think would make you more conscious of the cost of the electricity you are using.

a)



b)



We can make a case for thinking that either of these would be effective.

Let's look at a) first.

Sometimes the sheer size of a sum of money, like the cost of this electricity bill, can give people a jolt. £2321.41 sounds a lot more serious than 45p per minute.

However, large figures quickly baffle us and tend not to mean a lot to us. Electricity bills of:

£1500
£2400
£13967

all sound equally terrifying if our quarterly bill at home is about £75.

It's all too easy to feel that such a large sum is nothing to do with us - we didn't contribute much to the bill in the first place and there is nothing we can do to reduce it.

Knowing that the machine we are using (and perhaps leaving running while we are doing something else) costs 45p a minute is likely to make a bigger impression because it relates directly to what we are doing.

So, I would say that, as a piece of information, b) is likely to make people more aware of costs and likely to try to do something about them than a).

This sort of information doesn't just have to be in the form of some kind of notice. Just saying something like:

> 'Do you know this aluminium wrapper is £50 a roll now. Don't let it get knocked about.'

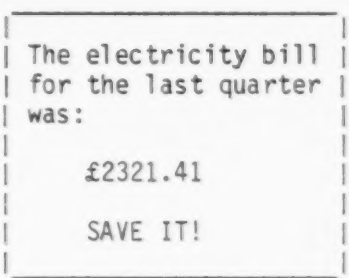
or

> 'We've just spent £200 having these blades re-set. Better make sure there's no grit gets in there.'

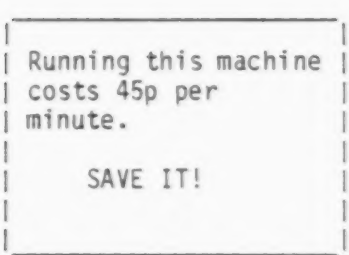
may have a similar effect.

Let's just have another look at our two notices again:

a) Notice pinned to the notice board in the canteen.



b) Sticker attached to a machine.



This time we know where the notices are.

ACTIVITY 29
Time Guide
1 min

Which do you think is a more effective place to display the information these notices contain - the canteen notice board or on a particular machine.

I hope we can agree that information about costs where the cost is going to be incurred and just as it's going to be incurred will make more impact.

What we read on the notice board in the canteen we may well forget when we go back to our workplace. What we read as we are about to use a piece of equipment is harder to avoid.

And, of course, like many notices, we can get used to them in time and fail to see them.

We can say though that information about costs needs to be:

* IN A FORM WE CAN RELATE TO

* AT THE TIME AND PLACE THE COST IS INCURRED

4 Feedback

Finally, let's look at feedback - the response we give to the workteam's efforts to reduce costs or to their suggestions for cost reduction.

ACTIVITY 30
Time Guide
3 mins

Suppose somebody in your workplace suggests a change to a certain process which will reduce costs. The change is approved, made and there is an article about it in the house newspaper.

Jot down one important piece of information which you would hope to find in the article.

*

You may have had several ideas but I hope among them would be:

How much money will it save?

If we are to be aware of costs, we want to know how much we're saving by our efforts. Certainly, if we're going to maintain an interest in costs, we need to know that we're making progress.

But, of course, not all suggestions are necessarily good ideas.

ACTIVITY 31
Time Guide
4 mins

Suppose somebody in your workteam suggests changing your computer stationery supplier. He has spoken to a representative of the alternative supplier and obtained some prices. On the face of it, it looks as though the alternative supplier's prices are less than you are currently paying. When you investigate further you find that the prices only apply for larger volume purchases than you would make.

Would you:

a) just let the subject drop because telling your workteam member might just discourage him from making further suggestions

b) tell him that it wasn't a workable idea

c) thank him for taking the trouble to find out about the alternative supplier and explain why you weren't going to take up the suggestion.

I expect we would nearly all choose c).

It's easy to understand that even though the suggestion isn't taken up, people need feedback on their ideas if they are to maintain an interest.

However; it's not so easy to remember to supply that feedback when we're under a lot of pressure to do all sorts of other jobs. It's worth making the effort, however - if you don't encourage cost consciousness, even when it is not directly useful, it won't be there when you need it.

SELF CHECK 7 Decide whether each of the following statements is TRUE or FALSE.
Time Guide
5 mins

a) You need to start getting people involved and interested when you introduce a cost reduction programme.

TRUE/FALSE

b) Communicating means passing on information.

TRUE/FALSE

c) You can reduce costs more successfully if the workteam cooperates and supports your effort.

TRUE/FALSE

d) The best way to encourage cost consciousness is to offer a prize for the best idea for cost reduction.

TRUE/FALSE

e) The larger the cost, the more impression it makes on people.

TRUE/FALSE

f) We understand best information about costs which relate to what we are doing at the moment.

TRUE/FALSE

g) If your workteam tries one method of cutting costs, but it is unsuccessful, it's better to say nothing.

TRUE/FALSE

The answer to this self check is here in the following words, so you'll need to check out your answers carefully. a) I would say this is false. Ideally, you need the workteam to be interested and involved in what is happening in the workplace before the idea of cost reduction is introduced. However, having said that, you do need the interest and involvement of the workteam to make a success of cost reduction - better late than never. b) Communicating is more than just passing on information so this is false. In the context of cost reduction, it's equally important to encourage other people to contribute their ideas and to listen to what they say. c) I hope we can agree that this statement is true. d) A prize may be a useful spur to new ideas but cost reduction involves keeping a constant eye on what is already happening and making the best use of time, materials and equipment on a day-to-day basis. A prize for new ideas won't encourage the everyday use of observation and commonsense which cost reduction demands. e) This is not usually true. Very large figures are not easy to relate to our own experience. f) It follows, then, that this statement is true. Information about costs at the point the costs are incurred and as they are incurred makes the most impression on us. g) I hope we can agree that this statement is false although there may be occasional exceptions. As a general rule, if interest in cost reduction is to be maintained, we need feedback. Even if our plans did not succeed, it's better to know and to adapt and modify them than simply to be left wondering what happened and feeling that nobody has bothered to tell you.

5 Summary

To make the workteam cost conscious - involve them

pass on information

give them feedback

Information about costs needs to be - in simple terms which we can relate to

available where and when the costs are incurred.

PART D CHECKLISTS FOR COST REDUCTION

1 Introduction

As we've seen, finding ways of reducing costs depends upon looking critically at every situation in the workplace and asking whether we are making the best use possible of the resources involved and doing the task in question in the most efficient way.

The questions we need to ask ourselves and the answers we will get will vary with the job and the workplace.

I hope you will find the following checklists help you to channel your thoughts about cost reduction in your work area.

2 Checklist for the Workteam

QUESTION	ACTION
* Do I use people with the right amount of skill for the job in hand?	
* Do I use highly paid people for low level work?	
If so why?	
Can it be avoided?	
* Is all our overtime necessary?	
* Who does most of the running around in my workteam?	
* Can I ensure that most of the travel is done by lower paid work team members?	
* What causes idle time?	
Lack of materials?	
Lack of availability of equipment?	
Lack of precise instructions?	
Lack of supervision?	

QUESTION	ACTION
* Are the workteam good about time-keeping?	
* Are all the workteam fully trained?	
* Fully competent?	
* Do their skills need bringing up-to-date?	
* Are the workteam interested in the job?	
* Are they willing to try new ideas?	
* Do they seem reasonably content?	
* Is there some information they would like to know about the workplace, the company, the product?	
* How often do I make a point of chatting to them about themselves and the job?	
* Do I ever have to explain what I want done several times?	
* Which instructions have not been understood recently?	

QUESTION	ACTION
* What can I do to make sure it doesn't happen again?	
* Should I write instructions for any tasks the workteam do?	
* Are written instructions up-to-date? In the right place? Readable?	
* Do I give the workteam feedback on their performance regularly (not just when things go wrong)?	
* What is our absenteeism record like?	
* How many of the workteam have left in the past two years? Why?	
* Have the workteam any special skills or knowledge which we're not using?	
* Do I have job descriptions for all my workteam? Are they up to date?	
* What records do I need to keep to help make the best possible use of the workteam?	

3 Checklist for Materials

QUESTION	ACTION
* Do we use the cheapest for the purpose without reducing the quality?	
* Do we keep sub-stocks?	
* Do I know about them?	
* Are sub-stocks accounted for?	
* Do we run out of materials? Why?	
* Do we have any out-of-date stock? Why?	
* Are any materials damaged during storage?	
* What control have I over a) production materials b) consumables - bags, stationery, oil, grease, packing materials, cleaning materials etc	
* Is scrap increasing/decreasing? Why?	
* Is the workplace clean and tidy? How often do I check housekeeping?	

4 Checklist for Machines, Equipment and Services

QUESTION	ACTION
* Do I report faults as soon as they occur?	
* Do I keep a record of the date and reason for machine failure?	
* Is all our equipment regularly maintained?	
* How fully used is the equipment for which I am responsible?	
* Could we get rid of any out-of-date machines?	
* Can I improve the layout of the equipment in my work area?	
* Are any machines standing idle? Why?	
* Do we switch off lights and power when they are not needed?	
* Do we make telephone calls outside the peak period whenever possible?	
* What changes to reduce costs would I like to introduce in the way we work?	
* Which departments do I need to help me?	

PART E PERFORMANCE CHECKS

Time guide 60 mins

1 End Check

You may review your understanding of the unit as a whole by completing this group of questions. DON'T GUESS THE ANSWERS - if you're not sure, flick back into the unit and check before responding.

If you are still unsure then put a question mark against your response before proceeding.

TRUE/FALSE

Respond to each statement by writing TRUE or FALSE in the space provided.

1 Direct Materials is a variable cost. _____

2 Costs can always be reduced by bulk buying. _____

3 Supervisors cannot do anything about costs which are outside their direct control. _____

4 Fixed costs can only be changed in the long term. _____

5 Poor housekeeping costs money. _____

6 A successful cost reduction programme needs the support of the workteam. _____

7 Communicating about cost reduction means giving out information about costs in the workplace. _____

8 Offering a prize is the most effective way of improving cost consciousness in the workteam. _____

COMPLETION

Respond by completing each sentence with a suitable word or words.

9 The three broad headings under which we can look for cost reduction are the use of _____, _____ and _____.

10 If records are to be used in a cost reduction programme they must be _____, _____, and _____.

11 Expensive staff time should be used on _____ work.

12 Costs can be reduced by giving _____ instructions.

13 _____ may reduce absenteeism, sick leave and high turnover of staff.

14 Low grade work should be done by people whose time is _____.

15 To reduce the cost of running equipment you should _____ the workteam in its _____ use.

16 It is a _____ _____'s job to co-ordinate the activities of a number of departments in an effort to reduce costs or improve value.

MULTIPLE CHOICE

Respond to each question by putting a mark against the ONE answer which is most correct.

17 Materials should be

(a) the best available

(b) the best you can afford for the purpose

(c) adequate for the purpose without any loss of quality

(d) the cheapest you can get away with

18 Planned maintenance prevents

(a) machines wearing out

(b) material being wasted

(c) the necessity to keep records

(d) unscheduled idle time

19 If details are kept of machine failure

(a) faults can be diagnosed more quickly

(b) maintenance costs increase

(c) maintenance costs decrease

(d) fewer faults should occur

20 Records should be

(a) designed to supply maximum information

(b) designed to need completing as rarely as possible

(c) designed to supply essential information easily

(d) designed to need minimum attention

21 Budgets are

(a) a tool to measure performance against a standard

(b) a strict control on spending

(c) an annual financial statement of the previous year's performance

(d) suggestions for reducing costs

22 To make your workteam cost conscious you should

(a) make sure they see a copy of the company's balance sheet

(b) involve them in discussions of ways and means of reducing costs

(c) tell them if they are incurring unnecessary costs

(d) supervise their time rigorously

23 Which one of the following will be a cost in all types of business?

(a) Direct Materials

(b) Factory Overheads

(c) Administration Overheads

(d) Manufacturing Wages

24 Which do you think would be the correct action for somebody who finds their machine is not working properly and some goods being produced are faulty?

(a) switch off the machine and report the failure immediately

(b) press on to the end of the job and then report the failure

(c) say nothing

(d) try to put the problem on the machine right

END CHECK - Checkout

Audio tape
Side 2
Time guide
30 mins

The answers and explanations for these End Checks are on Side 2 of our Audio Tape. Have your responses with you as you play this tape. As you listen you can check out how well you have done and make notes as you proceed.

2 Tutor Check

Time guide 60 mins

Read the following case incident, then deal with the accompanying questions.

Whole Earth Snacks (formerly Brown's Restaurant) is a long established town centre business. It has been through some hard times in the last few years and drastic measures have been taken to try to keep the business going.

The business is busiest at lunch-time and competition for lunch-time trade in the town is very fierce. The menu used to be based on meat and two vegetables, fish and chips, pie and chips and so on. Stodgy puddings were a speciality of the house.

But the fashion in lunch-time eating has changed. Customers are more health-conscious and are looking for fast, appetising food with less fat and more fibre. Traditional lunches and chips with everything are out.

Latterly the owners have changed the menu completely so that the cafe now serves freshly-made wholemeal sandwiches, made up on the spot to customer requirements, salads, jacket potatoes with a variety of toppings and a selection of hot savoury flans. The emphasis is on giving the customers exactly the combination of ingredients they want so each meal is made up as and when the customer orders it rather than being plated up beforehand.

Much of the original equipment is now unused or unsuitable for the changed style and the restaurant has been totally re-equipped.

You become supervisor of Whole Earth Snacks soon after the changes are made. The new equipment has already been purchased and the new style of operation fixed but it is up to you to make it work and to make sure that the owners get a reasonable return on their investment. You are responsible for organisation, staffing and the purchasing of supplies.

When you take over you find that the staff are having difficulties. They are used to being able to prepare for the lunch-time peak period well in advance rather than needing an all-out effort for a two or three hour period in the middle of the day. Now, they tend to stand about doing nothing or work steady at fairly unimportant jobs in the first part of the morning and cannot cope with the lunch-time rush. They are not sure how to use some of the new equipment, particularly since the instruction manual for some items has gone missing.

Working space is very confined since most of the old equipment has been kept either because it is still relatively new or because, if the new menu is not a success, it may be needed again in the future.

Here is a list of the major equipment found in the restaurant before the change and a list of the items purchased when the style changed.

Previous Equipment	New Equipment
Deep fat frier	Microwave ovens
Potato peeler	Food processor
Potato boiler	Bread slicer
Potato chipper	Work surfaces
Food mixer	Lettuce spinners
Large deep freeze	Juicer
Walk-in fridge	
Hot cupboards	
Meat slicer	
Large cooker	
Pressure cooker	

You only need to write ONE or TWO sentences against each question.

(1) Do you think there will have been any major changes in the way costs are made up as a result of the change of style of restaurant?

Give two examples with the reasons for your choice.

(2) As supervisor in Whole Earth Snacks draw up two lists:

(a) costs which are within your control

(b) costs which are outside your control

(3) Suggest three ways in which you could reduce costs at Whole Earth Snacks.

Send to Tutor

Now get your answers to your study tutor either by post or handing it over personally. You will receive your tutor's assessment and comment back through the post as soon as can be managed.

3 Work-based project

Time guide 60 mins

(1) Describe one way in which costs could be reduced in your workplace. Give enough information about present costs and the change you propose to show that a cost saving would result.

(2) Describe any problems which might arise from the course of action you propose and say what you would do about them.

(3) Will your cost reduction proposal have a knock-on effect?

List any other workteams, work areas or departments which may be affected by your proposals and briefly say what you think the effect will be.

(4) Describe how you would persuade other people in the workplace to support and carry out your cost reduction proposal.

Send to Tutor

Now get your answers to your study tutor either by post or handing it over personally. You will receive your tutor's assessment and comment back through the post as soon as can be managed.

PART F UNIT REVIEW

1 Return to Objectives

Having completed your work on this unit let's review how you feel about each of our four objectives. I will repeat them here and add comment.

You will be better able to:

* **IDENTIFY THE MAIN AREAS OF COST IN YOUR WORKPLACE**

We started by looking at the various ways costs can be broken down in order to analyse them in any workplace. If we are trying to identify ways of reducing costs, it helps to be able to identify the costs which we can directly control and those which we can influence, but not directly control, since each will need a different strategy. Costs which are within our control, we may be able to reduce. We need to make sure that we are getting value for money for costs which we cannot directly control.

If you now find this distinction in your own workplace easier to make you have achieved this objective. This brings us to our second objective.

You will be better able to:

* **IDENTIFY POSSIBLE COST SAVINGS IN YOUR WORKPLACE**

We looked at a number of situations where it was possible to reduce costs. Although it's unlikely that exactly the same situation will arise in your workplace, we did find that we can look for ways of reducing costs under the broad headings of men, materials and machines. Whatever our job, a critical look at the use we are making of each of these, observation, commonsense and maintenance of simple, up-to-date records should highlight some possible ways of reducing costs.

You will be better able to:

* **ENCOURAGE YOUR WORKTEAM TO BE COST CONSCIOUS**

Once you become cost conscious yourself you will quickly realise that, to achieve substantial cost reductions, you need the cooperation and support of your workteam. We looked at the importance of involving them in discussions about costs and of encouraging them to think about costs and then listening to what they have to say. We saw that information about costs needs to be in terms which mean something to the individual members of the workteam and, to influence what they are actually doing, needs to be at the place and at the time that the costs are incurred.

If you are now convinced of the importance of involving your workteam in your cost reducing plans and have some ideas about how you will achieve this you have achieved this objective. This brings us to our final objective.

You will be better able to:

* MAKE PLANS FOR COST REDUCTION AND PUT THEM INTO ACTION

We've said that cost reduction frequently depends on observation and commonsense. The checklists in Part D of this unit will at least give you a framework of questions which you need to ask about the use being made of your own and your workteam's time, the space you occupy and the materials and equipment you use. If you answer the questions on the checklists honestly and make a note of what you plan to do in each instance, you should have the makings of an effective cost reduction programme.

I hope that the work you have done in this unit was enjoyable and useful enough to encourage you to continue in your studies.

2 Extensions

I recommend that you take up as many of these extensions as you can. They will further increase your understanding and interest. You will also be able to check out a number of the ideas that I mention in the unit. The extra time and effort will prove very worthwhile.

EXTENSION 1	Book:	Choice Unit 70: Accounting for Money
	Author:	Dennis Bainbridge
	Publisher:	Northern Regional Management Centre
EXTENSION 2	Book:	Choice Unit 71: Control via Budgets
	Authors:	Alastair Clelland
	Publisher:	Northern Regional Management Centre
EXTENSION 3	Book:	Choice Unit 33: Method Study
	Author:	Robert Twitty
	Publisher:	Northern Regional Management Centre
EXTENSION 4	Book:	Choice Unit 38: Value Analysis
	Author:	Vas Prabhu
	Publisher:	Northern Regional Management Centre
EXTENSION 5	Book:	Choice Unit 39: Quality Circles
	Author:	Ysanne Carlisle
	Publisher:	Northern Regional Management Centre

These extension opportunities can all be taken up via your Support Centre.

They will either have the materials or will arrange that you have access to the materials. However it may be more convenient to check out the materials with your Personnel or Training people at work - they may well give you access. There are other good reasons for approaching your own people, for example they will become aware of your interest and you can involve them in your development.

3 References

REFERENCE 1	Book:	An Introduction to Cost and Management Accounting
	Authors:	M L Houlton
	Publisher:	Heinemann
REFERENCE 2	Book:	Business Accounting Volume 1 4th edition
	Author:	Frank Wood
	Publisher:	Longman

These references can all be taken up via your Support Centre. They will either have the materials or will arrange that you have access to the materials. However check with your Personnel or Training people at work - they may well give you access. There are other good reasons for approaching your own people, for example they will become more aware of your interest and you can involve them in your development.

If you do wish to make use of these references then don't think that you must read them right through. Just dip into them for a slightly wider treatment of the topic raised by the unit.

I should warn that the language and style of the writing is often difficult to cope with. So don't struggle with it too much. Do what I do when in difficulty, put the book back on the shelf and find a better one!

THE CHOICE SERIES

PRINCIPLES AND PRACTICE OF SUPERVISION

11 Needs and Rewards
12 Enriching Work
13 Workteams
14 Team Leading
15 Leading Change
16 Organisation Systems
17 Supervising in the System
18 Supervising with Authority
19 Workplace Control
20 Taking Decisions

TECHNICAL ASPECTS OF SUPERVISION

30 Looking at Figures
32 Using Graphs
33 Method Study
34 Easy Statistics
35 Quality Control
37 Controlling Output
38 Value Analysis
39 Quality Circles
40 Computers
41 Stores Control
42 Managing Time
43 Descriptive Statistics
45 Supervisors & Marketing

COMMUNICATION

60 Communicating
61 Speaking Skills
62 Writing Skills
63 Communication Systems
64 Orders and Instructions

ECONOMIC AND FINANCIAL ASPECTS

70 Accounting for Money
71 Control via Budgets
72 Cost Reduction
73 Wage Payment Systems
74 The National Economy

INDUSTRIAL RELATIONS

80 Training Plans
81 Training Sessions
82 Discipline and the Law
84 Health and Safety
85 Industrial Relations in Action
86 Equality at Work
87 Hiring People
88 Supervising and the Law